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OFFICE OF THE INSPECTOR GENERAL

9

SEMIANNUAL REPORT

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OCTOBER 1, 1996 ~ MARCH 31, 1997

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The Office of the Inspector General (OIG) is an independent organization charged with reporting to the Tennessee Valley Authority (TVA) Board of Directors and Congress on the overall efficiency, effectiveness, and economy of TVA programs and operations. The OIG meets this responsibility by conducting audits, investigations, and other reviews.

The OIG focuses on the prevention, identification, and elimination of (1) waste, fraud, and abuse; (2) violations of laws, rules, or regulations; and (3) inefficiencies in TVA programs and operations.

If you want to report any matter involving TVA programs, operations, or employees, you should call the OIG Hotline or write the Inspector General's office.

**TVA  
INSPECTOR  
GENERAL**

**Hotline**

Call toll free:  
**1-800-323-3835**  
423-632-3550 (Knoxville)

**Tennessee Valley Authority**  
400 West Summit Hill Drive ET 4C  
Knoxville, Tennessee 37902-1499



Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1499

George T. Prosser  
Inspector General

April 30, 1997

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

This semiannual report describes accomplishments of our office for the six-month period ending March 31, 1997.

During this reporting period, we completed 22 audits and 15 special projects which identified almost \$600,000 in questioned costs and \$39.9 million in funds that could be used more effectively. Our auditors emphasized contract issues while also examining topics as diverse as TVA Human Resource Management and its functions, acid mine drainage treatment at a TVA-owned coal mine, and the disaster recovery planning activities of an organization providing billing and other services to Tennessee Valley publicly owned utilities.

Our investigations group completed 93 investigations and has 160 cases under active investigation. During this reporting period, our investigations identified \$2.4 million in recoveries and also led to 1 indictment and 8 convictions. In addition, our investigations of fraudulent or questionable workers' compensation claims identified potential long-term savings to TVA of over \$2.3 million.

As are our counterparts in other agencies, we find ourselves increasingly challenged to produce excellent results in the face of a diminished workforce and decreasing resources. Yet now more than ever, as TVA is similarly challenged, we know we must provide a high level of service in uncovering any fraud, waste, and abuse affecting our agency. As always, the men and women of the OIG will work together to meet new challenges as they continue to serve as an effective and objective factfinder.

Sincerely,

A handwritten signature in black ink, appearing to read "George T. Prosser", written in a cursive style.

George T. Prosser

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## ■ EXECUTIVE SUMMARY

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*This report summarizes the activities and accomplishments of TVA's OIG during the six-month period ending March 31, 1997.*

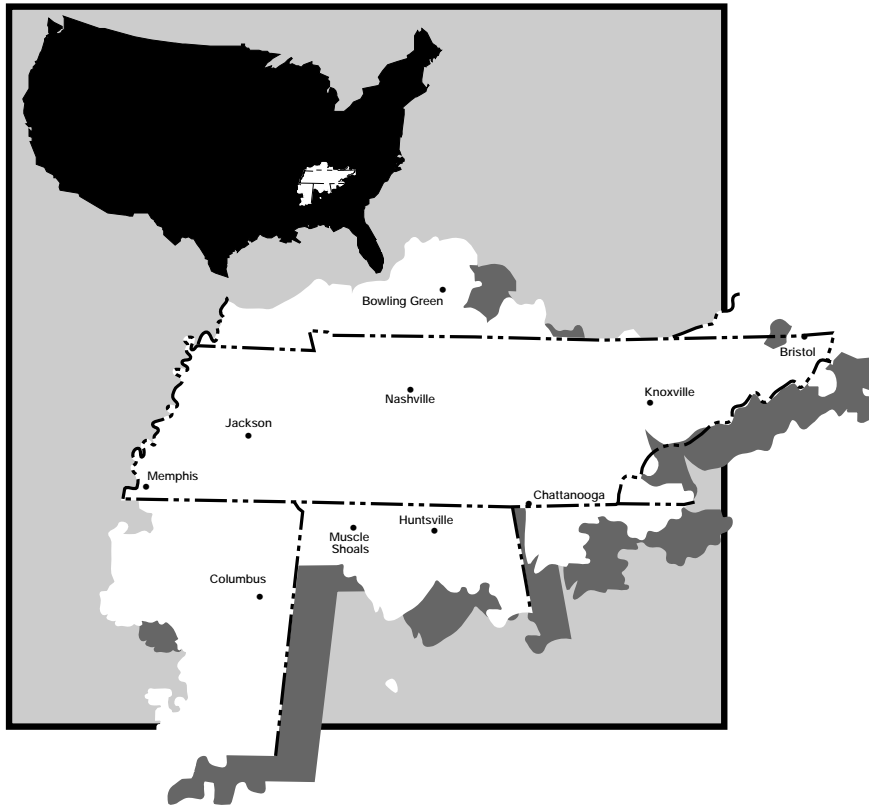
We continued our efforts to support TVA's goals by providing quality service with a reduced workforce. We completed 22 audits and 15 special projects which identified almost \$600,000 in questioned costs and \$39.9 million in funds that could be used more effectively. We also completed 93 investigations which led to more than \$2.4 million in potential or actual recoveries, the identification of over \$2.3 million in long-term savings to TVA, 1 indictment, and 8 convictions.

Auditors and investigators are collaborating on new initiatives to expand our long-standing commitment to containing TVA's workers' compensation costs. In some instances, this collaboration includes other federal agencies and TVA management. Our initiatives include identifying overpayments to healthcare providers who manipulated payment codes, co-hosting a conference with the Postal Inspection Service to provide cost-saving information to 19 federal agencies, and seeking permission from the Department of Labor (DOL) to conduct a pilot pharmacy plan for workers' compensation benefits recipients.

Audit activities included performance reviews of TVA programs, processes, and systems; compliance and preaward audits of TVA contractors; and special project reviews of high-profile issues. An

audit of a contractor's proposal to provide fire protection systems estimated TVA could save \$1,350,000 by taking specific actions in connection with a proposed three-year, \$30 million contract. Another audit found TVA is due \$224,667 from a major contractor for questionable payments. Among the 15 special projects we completed was a review of the TVA Nuclear Power Concerns Resolution Program, a peer review of the U.S. General Printing Office OIG, and a project which estimated that \$34 million in savings could be realized if the DOL would allow TVA to make lump-sum Federal Employees' Compensation Act payments.

Our investigations of workers' compensation fraud led to the termination or denial of benefits to four individuals, producing a potential long-term savings to TVA of more than \$2.3 million. Seven individuals were ordered to pay over \$418,000 in connection with their fraudulent workers' compensation claims. Four former contractor employees were ordered to pay more than \$171,700 in restitution to TVA for making false claims to obtain temporary living expenses. We investigated misconduct allegations, including employees' disclosure of confidential information, harassment, and sexual misconduct.



*TVA's 15,506 employees serve an 80,000-square-mile region spanning seven states.*

TVA is a federal corporation responsible for developing and conserving the natural resources of the Tennessee River Valley.

TVA's 15,506 employees are involved in economic, natural resource, and agricultural development and in the production of low-cost electricity. The power system is funded by power sales, and TVA's other programs are funded primarily by congressional appropriations.

TVA is governed by a three-member Board of Directors appointed by the President and confirmed by the Senate.

Craven Crowell is the Chairman, and Johnny H. Hayes and William H. Kennoy are Directors.

TVA's goals are Customer Driven, Employee Sensitive, Environmentally Responsible, and Growth Oriented. TVA's vision is "to be the recognized world leader in providing energy and related services, independently and in alliances with others, for society's global needs."

## Organization

The OIG's Audit Operations unit consists of four departments, two of which are devoted to contract-related topics and high-profile special project customer requested services. Two other departments focus on performance, financial, and ADP-related issues.

The OIG's Investigative Operations unit consists of an investigative services and hotline group and two investigative departments. One department focuses on contract issues, workers' compensation cases, and employee integrity matters; the other department focuses on environmental issues, nuclear issues, and benefits and entitlement programs.

## Office Authority

The TVA Board of Directors administratively established the OIG during October 1985. During its early years of operation, the OIG operated much like its statutory counterparts and exercised subpoena powers granted by a provision in a TVA appropriations bill. When Congress enacted the Inspector General Act Amendments of 1988, TVA's OIG became 1 of 33 statutory offices whose Inspector General was appointed by the agency head. TVA's Inspector General is independent and subject only to the general supervision of the Board of Directors.

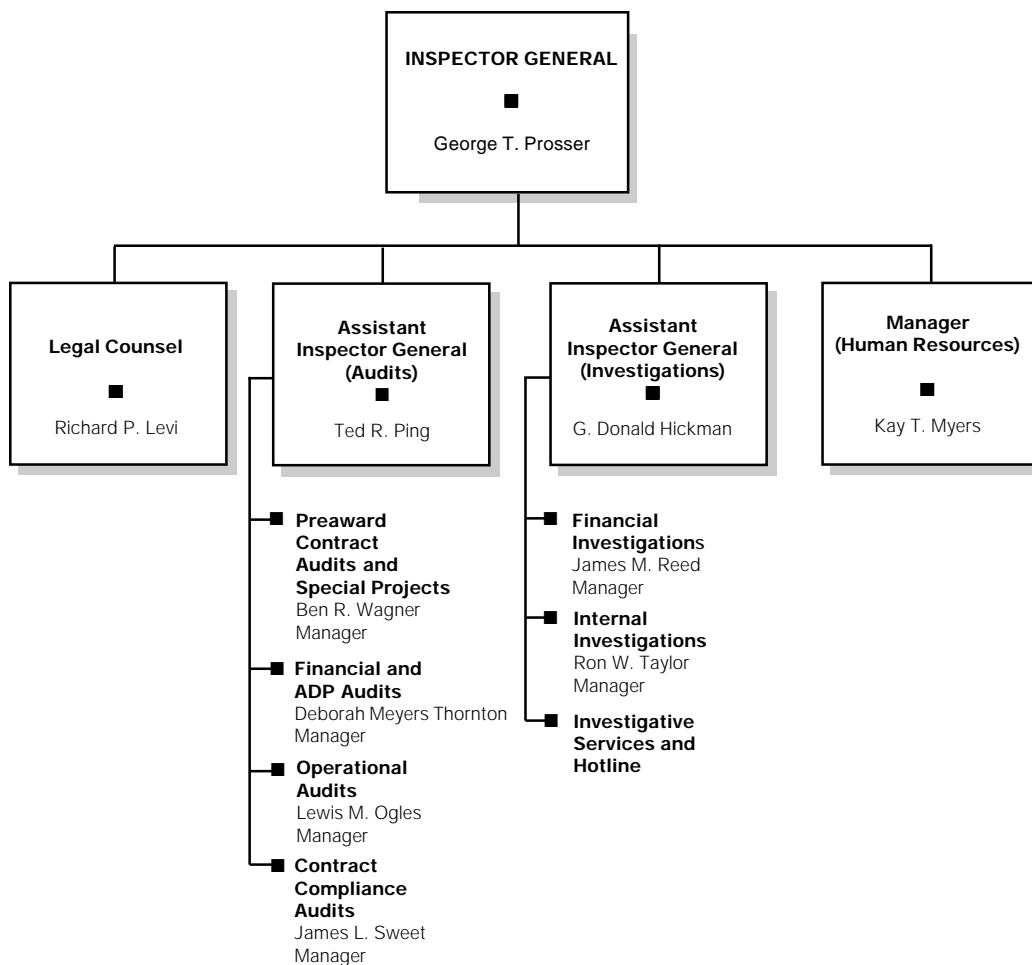
George T. Prosser became TVA's third Inspector General on April 1, 1994.

## Staffing and Budget

The OIG's offices are in the TVA headquarters in Knoxville, Tennessee. The OIG also has investigative satellite offices in Chattanooga, Tennessee, and Huntsville, Alabama.

The OIG's fiscal year 1997 budget is about \$7.3 million, and during this reporting period, the OIG had 86 employees.

### OFFICE OF THE INSPECTOR GENERAL





## COST CONTAINMENT IN THE WORKERS' COMPENSATION PROGRAMS

The OIG and TVA management share a commitment to improving the operation and cost effectiveness of TVA's workers' compensation programs. We continue to work collaboratively on numerous initiatives to identify and eliminate unnecessary cost. We are sharing our suggested improvement initiatives with other federal agencies who have similar interests. Our collaborative efforts primarily focus on cost under the Federal Employees' Compensation Act (FECA). Additionally, we are working with TVA program managers to reduce cost in TVA's owner-controlled insurance program, which covers contract employees under state workers' compensation programs. A summary of these initiatives and highlights of our accomplishments to date are discussed below.

### DUAL BENEFITS FOR TVA EMPLOYEES

Federal employees covered under the Civil Service Retirement System or the Federal Employees' Retirement System must elect either FECA or retirement benefits; they cannot receive both. FECA also requires an offset of social security benefits received by federal employees based on federal service. TVA employ-

ees are treated differently. FECA does **not** require an election or offset for TVA employees covered by the independent TVA retirement system. Consequently, TVA employees receive full FECA benefits, retirement benefits, and social security benefits based on age. We calculated that TVA pays over \$2 million annually, above what other federal agencies would pay, to approximately 260 employees receiving these dual benefits.

Discussions with the TVA Retirement System, the DOL, and others indicate that only congressional legislation can end these duplicative benefit payments. Accordingly, the OIG is working with TVA management and the Tennessee Valley Delegation in Congress to promote enactment of legislation which would eliminate the inequity and treat TVA's retirement system the same as other federal retirement systems.

### MEDICAL CODE MANIPULATION IN THE FECA PROGRAM

Based on the findings in a General Accounting Office report, we estimated that commercial code manipulation detection systems could significantly

reduce the cost for physician services and supplies. The OIG is currently concluding an initiative involving TVA's workers' compensation program. We identified improper and excessive reimbursement to healthcare providers who manipulated the American Medical Association's uniformly accepted coding system called the Physicians' Current Procedural Terminology. Project results show that losses due to code manipulation may be as much as five percent of expenditures for outpatient services and that commercially available software can help spot the overcharges. The OIG has recovered about \$100,000 of identified overcharges.

### MEDICAL COST CONTAINMENT CONFERENCE

Medical costs account for approximately 25 percent of FECA's \$1.8 billion budget and cost TVA \$6 to \$8 million annually. To increase awareness of the need for medical cost containment efforts and exchange information on identifying healthcare fraud, TVA and the Postal Inspection Service hosted a November 1996 conference attended by 19 federal agencies. Topics included the Office of Workers' Compensation Programs' (OWCP) current medical cost containment efforts, commercial software to edit

medical bills for errors and code manipulation, Medicare and Medicaid fee schedules, in-hospital fee schedules, and managed pharmacy plans. The OIG is working with TVA management and the Postal Inspection Service to co-host a second interagency conference this summer.

### INTERAGENCY WORKGROUP

After the Medical Cost Containment Conference, the OIG participated with TVA management in surveying attendees to determine interest in an Interagency Workgroup to exchange information on FECA. The survey revealed interest in continuing the interagency



*Debra Youngblood, Workers' Compensation Department Manager, and OIG employees Dan Pitts and Curtis Phillips participated in the Interagency Workgroup.*

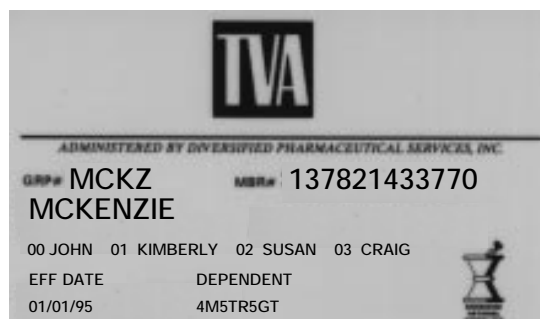
meetings to exchange information on the topics such as continued medical cost containment efforts, improved communications with OWCP, an OWCP newsletter to share current information, continued efforts to establish a framework for the electronic filing of claims, successful investigative processes, and legislation to correct deficiencies in the FECA system.

## PILOT PROJECT FOR MANAGED PHARMACY PLAN

The OIG participated with TVA management in a presentation to the DOL regarding TVA's Managed Pharmacy Plan and the potential for TVA extending that program to FECA cases as a pilot

project. Under the Managed Pharmacy Plan, users fill prescriptions from a network pharmacy at discount

prices. Extending this plan to workers' compensation recipients could result in improved services, cost savings through discount purchases, and reduced administrative costs. We have discussed this project with the DOL and have obtained preliminary approval. Accordingly, TVA is planning the project and anticipates reducing our pharmacy costs under FECA by as much as 20 percent. If the anticipated savings are realized, the DOL may consider implementing the concept throughout the federal government.



## LUMP-SUM SETTLEMENTS

FECA permits lump-sum payments subject to the discretion of the Secretary of Labor (Secretary). Currently, we understand the Secretary prohibits lump-sum payments except in a few cases. We reviewed lump-sum payments under state workers' compensation programs and found that TVA could achieve significant savings if it could negotiate lump-sum payments with the same flexibility and success as the private sector. We calculated that TVA could save about \$37.1 million if it could pay claimants the present value of their future workers' compensation benefits, assuming the number of claimants willing to settle was approximately the same as that found in the private sector. We have recommended that TVA management pursue with the DOL the merits of using lump-sum settlements.

## PROVIDER NETWORKS

Many healthcare providers offer discounts through provider networks. However, the FECA program does not use provider networks. To determine the potential savings in this area, the OIG and TVA management are working with one of TVA's provider networks to determine how much could be saved if workers' compensation recipients used the same provider network currently used in other TVA programs.

## OWNER CONTROLLED INSURANCE PROGRAM

During 1992, TVA implemented an Owner Controlled Insurance Program (OCIP) to help reduce the cost of contract labor. This program was designed to allow TVA the opportunity to contract with insurance carriers to provide insurance for contractors' employees or to allow the contractor to build this cost into their hourly rates, whichever is most economical for TVA.



*OIG Auditors Mike Blair, Dan Pitts, and John Henry Barrow worked on the OCIP review.*

TVA's Manager of Risk Management estimates that since its inception, the OCIP has saved approximately \$36 million. TVA continues to enhance OCIP effectiveness and has requested the OIG to conduct studies to identify opportunities for improvement. Recent OIG studies suggested improving pricing and processing of medical claims, revising the structure of fees paid to the insurance carrier to further encourage cost containment, and implementing additional controls to detect and prevent fraud.

Audits are initiated from (1) the OIG annual workplan, (2) issues identified by the OIG subsequent to the annual workplan, (3) issues identified by cooperative efforts with TVA management, or (4) concerns raised by TVA management or others. During this reporting period, we issued 22 audit reports that identified over \$600,000 in questioned costs and almost \$1.7 million in funds which could be put to better use (see Appendix 1).

### Summary of Representative Audits

Our audits included performance reviews of TVA programs, processes, and systems, as well as compliance audits and preaward audits of TVA contractors.

#### **PREAWARD AUDIT OF CONTRACT FOR FIRE PROTECTION SYSTEMS**

We audited a contractor's cost proposal to provide fire protection systems under a three-year TVA contract. We estimated TVA could save \$1,350,000, based on planned expenditures of \$30 million, by:

- Limiting reimbursement for nonsupervisory craft labor to rates specified in TVA's Project Maintenance and Modification Agreement.

- Limiting reimbursement for payroll taxes and workers' compensation insurance to actual costs the contractor will incur for this contract.
- Negotiating a lower markup rate for recovery of indirect costs and fees based on a rate the contractor has with another utility.

#### **BENCHMARKING STUDY OF HUMAN RESOURCE FUNCTIONS AND COSTS**

Human resource management (HRM) typically consists of several functions such as strategic planning, recruitment and employment, labor relations, recordkeeping, and compensation and benefits. Historically, HRM has been primarily involved in processing transactions, but its role appears to be changing to more of a consulting and strategic role.

We compared TVA's HRM functions to similar functions of other companies. Many companies recognized as having a world-class HRM have reduced HRM staffing and costs by automating, outsourcing, or eliminating certain HRM functions and by shifting HRM responsibilities to line management or employees. Similarly, TVA has initiated efforts to develop more efficient and effective HRM functions.

## **DISASTER RECOVERY PLANS FOUND TO BE ADEQUATE**

At the request of the Central Service Association (CSA), we reviewed their disaster recovery planning and related activities. CSA is an organization which provides billing and other services to publicly owned member utilities in the Tennessee Valley. We found that CSA's disaster recovery planning had established a good foundation for continuing service quickly in the event a disaster or other interruption occurs; however, we did identify some areas in which CSA could improve its disaster recovery planning, documentation, and prevention measures. These areas included planning, assignment of responsibilities, and notification procedures; communications; physical and logical security; off-site backup storage, retrieval, and recovery; and testing. CSA management immediately initiated actions or made plans to remedy our concerns. Based on the strengths of its plans and actions taken or planned to remedy concerns identified, CSA's disaster recovery plans should ensure continuity of its operations within a reasonable time in the event of a disaster.

## **CELLULAR TELEPHONE USAGE AND SECURITY**

As of March 23, 1996, TVA had approximately 1,780 cellular telephones. TVA contracts with several cellular service providers across the Tennessee Valley; however, approximately 90 percent of TVA's cellular telephones are serviced through one provider under a single contract.

In summary, we found that TVA cellular telephone users complied with policies and procedures regarding cellular telephone use.

## **COMPLIANCE AUDIT OF NUCLEAR CONTRACTOR**

At the request of TVA management, we audited a major contractor involved in TVA's nuclear program. Our objective was to determine if the invoiced costs for fixed-price work by the contractor complied with the contract.

As of April 14, 1996, TVA had paid the contractor \$1.2 million for fixed-price work under various contract modules. We questioned \$14,121 for an invoice error and task overrun on the fixed-price work. The contractor has corrected the invoice error, and TVA and the contractor are working to resolve the overrun.

## **REVIEW OF ACID MINE DRAINAGE TREATMENT AT COAL MINE**

Since 1984, TVA has focused on the treatment of acid mine drainage (AMD) at its Fabius coal mines in Northwestern Alabama. Although TVA has used both active and passive AMD treatment systems, TVA has experienced difficulty solving AMD at an impoundment discharge point at Fabius. As a result, TVA personnel recently identified three alternatives or options for management's consideration.

We assessed whether the current methodologies used by TVA to treat AMD were consistent with industry practices, and cost estimates for the AMD treatment alternatives being considered were documented and/or justified. In summary, we found TVA's AMD treatment practices compared favorably with industry practices, and TVA personnel effectively documented or justified the components comprising each cost estimate.

## **CONTRACTING PROCESS FOR ENVIRONMENTAL RESTRICTED AWARDS LIST REVIEWED**

The Hazardous Waste Storage Facility (HWSF) in Muscle Shoals, Alabama, was established to facilitate the disposal of all TVA non-nuclear hazardous waste. The

HWSF currently uses the Environmental Restricted Awards List (ERAL) process when contracting with hazardous waste disposal contractors.

We assessed whether the ERAL process was an effective tool for minimizing TVA's environmental risks and liabilities related to contracting for the disposal of non-nuclear hazardous waste. In summary, we found the ERAL process was generally effective; however, the ERAL process could be improved by requiring the Environmental Research Center to document justifications for ERAL vendor additions and denials. In addition, some TVA organizations did not coordinate their non-nuclear hazardous waste disposal activities through HWSF, thereby partially negating the value of TVA having an ERAL process.

## **PREAWARD AUDIT REVEALS OVERSTATED COSTS**

We audited a contractor's cost proposal to provide modification, repair, and supplemental maintenance services at the Cumberland Fossil Plant. In summary, we found the proposed rate for recovering craft labor payroll taxes was overstated and could result in inflated billings to TVA of as much as \$270,000 (based on TVA's estimate that craft labor costs could be as high as \$6 million). We also questioned whether it would be more

cost effective for the contractor to provide its own insurance coverages rather than having TVA provide the coverage.

The contractor subsequently agreed to bill actual craft labor payroll taxes, and TVA management determined that it would be more cost effective for TVA to provide insurance coverage.

#### **COMPLIANCE AUDIT OF NUCLEAR CONTRACTOR IDENTIFIES OVERCHARGES**

At the request of TVA management, we audited the cost incurred by a major contractor under three TVA contracts for modification and maintenance work at the Watts Bar and Sequoyah nuclear plants between December 1994 and May 1996.

We found TVA is due \$224,667 for an overstated labor burden markup and questionable payments for home office expenses.



In the last six months, we substantiated allegations in 28 of the 93 investigations we closed—over 30 percent. Our cases have identified \$2.4 million in potential or actual recoveries, 1 indictment, and 8 convictions. Representative investigations are highlighted below.

### Summary of Representative Investigations

#### WORKERS' COMPENSATION CLAIMS

During this reporting period, OWCP terminated benefits of three individuals and denied benefits to another employee as a result of our investigations, resulting in potential long-term savings to TVA of more than \$2.3 million.

Based on our investigative efforts, recovered costs from forfeiture of OWCP compensation and restitution ordered totaled over \$418,458 during this reporting period.

#### Criminal Cases

During this reporting period, one former employee was convicted and sentenced in federal court for making false statements to OWCP by failing to report his work activities while receiving disability benefits. Two former employees convicted during the previous period have

since been sentenced in federal court. OWCP has terminated workers' compensation benefits to the three as well, which resulted in potential long-term savings to TVA of more than \$1.4 million.

Federal courts sentenced the three individuals as follows for making false statements to obtain federal employees' benefits.

- A former TVA laborer pled guilty to one count and was sentenced to six months' probation. The court ordered the former employee to pay restitution of \$11,507.
- A former TVA employee pled guilty to one count and was sentenced to four months' home detention, 36 months' probation, and 150 hours of community service.
- A former TVA electrician pled guilty to five counts and was sentenced to five months in federal prison and a one-year probation (which includes home confinement not to exceed 150 days).

#### Administrative Cases

OWCP denied benefits to a TVA laborer as a result of our investigation of the employee's injury. Our evidence established the laborer did not meet his burden of proof in showing his injury was

sustained at work. As a result of our investigation, OWCP's denial of the employee's benefits resulted in potential long-term savings to TVA of more than \$841,900.

### **FALSE CLAIMS—TEMPORARY LIVING EXPENSES**

We continued our efforts to reduce TVA contract costs by identifying fraudulent and ineligible temporary living expenses (TLE) paid to TVA contractors. During this reporting period, we initiated 14 investigations; 4 closed investigations led to realized and potential savings for TVA of more than \$171,700.

#### **False Claims Act**

A former welder engineer for Ebasco/ Raytheon Engineers and Constructors was the subject of our first investigation which was pursued under the civil False Claims Act. Under the Act, individuals may be required to pay treble damages and up to \$10,000 per false claim. In this case, the former contractor employee agreed to settle the action against him (in lieu of prosecution) by paying \$11,922.58, which was double the amount of money he fraudulently obtained.

### **Convictions**

During this reporting period, five former TVA contractor employees were convicted in federal court for making false claims to obtain TLE. Descriptions of representative cases are highlighted below.

- A former senior engineer for Bechtel at the Browns Ferry Nuclear Plant (BFN) pled guilty to making a false claim against TVA to obtain TLE. The former contractor employee was sentenced to four months in federal prison, four months' home detention, and three years' probation. He was ordered to pay a \$2,000 punitive fine and to pay \$58,499 restitution to TVA.
- Another former senior engineer for Bechtel at BFN pled guilty to making a false claim against TVA. The former contractor employee was sentenced to four months in federal prison, four months' home detention, and three years' probation. He was ordered to pay a \$2,000 fine and \$63,619 restitution to TVA.
- A former contractor employee for Stone & Webster Engineering Company, Jesco Services, Inc., and Pacific-Atlantic Technical Service Company at BFN pled guilty to fraudulently obtaining \$37,695. The

former contractor employee was sentenced to five years' probation, fined \$1,000, and ordered to pay restitution of \$37,695. (Civil action is being initiated, as well, under the federal False Claims Act.)

- A former senior engineer for Bechtel at BFN has been charged with making a false claim to obtain \$39,506.

#### **CONTRACT-RELATED MISCONDUCT**

TVA's Economic Development guaranteed an \$800,000 loan to a Mississippi agricultural company. After fire destroyed the company's plant, TVA officials became concerned regarding the company's ability to repay the loan. In addition, the company requested TVA guarantee a second loan for the purchase of new equipment and the continuation of its operations. Our investigation determined the company had sufficient insurance to pay off the loan guaranteed by TVA. We learned, however, of additional problems concerning the company. Subsequent to our inquiry, TVA's Economic Development decided to discontinue its business relationship with the company. TVA received reimbursement from its loan to the company totaling over \$865,000 (interest included).

Another investigation disclosed a TVA contractor provided TVA with coal for producing power that did not meet contract specifications, and the contractor shipped coal from unauthorized sources to TVA. The coal caused ash removal problems and caused molten ash to adhere to the sides of the plant's boilers on two occasions. In both instances, the plant was forced to shut down to remove the molten ash from the boilers. Subsequently, TVA and the contractor agreed the contractor would provide TVA 18 trains of coal (worth approximately \$900,000 at the current market rate).

#### **EMBEZZLEMENT**

A former TVA materials clerk pled guilty in federal court after our investigation revealed she embezzled more than \$38,900. Initially, the clerk—who was in charge of collecting mail and preparing field purchase orders—stole checks that vendors returned to TVA as overpayments. Subsequently, she devised a scheme in which she took legitimate vendor invoices and altered key information, including inserting her own address (i.e., a post office box) on the invoices. She then attached the falsified vendor

invoices to field purchase orders, which she prepared and submitted for payment. Subsequently, TVA sent the checks to the clerk's post office box.

The former clerk was sentenced to four months in a correctional facility, four months' home detention, and three years' supervised probation. Additionally, she was ordered to pay full restitution to TVA.

### **MISCONDUCT**

Representative cases involving employee misconduct are highlighted below.

Our investigation revealed two employees improperly disclosed administratively confidential information. Both employees resigned.

Our investigation substantiated an employee sent 13 anonymous letters to 5 TVA employees. The language of the letters was pejorative—using sexist, racist, and generally offensive terms. The employee denied sending the letters; however, as part of our investigation, a certified forensic document examiner concluded the employee's handwriting matched a sampling of envelopes in which the letters were sent. The employee initially was placed on non-work,

non-pay status during our investigation and subsequently terminated for cause as a result of our investigation.

Two TVA employees resigned as a result of our investigations of allegations they were involved in sexual misconduct.

### **NUCLEAR SAFETY ISSUES**

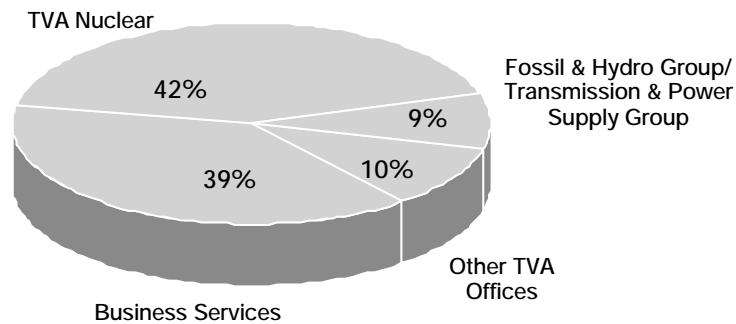
During this reporting period, we completed 17 investigations involving nuclear-related issues, including 3 cases involving complaints filed with the DOL under Section 211 of the Energy Reorganization Act. In the majority of our nuclear-related investigations, we found insufficient evidence to show employee misconduct. We investigated the Section 211 complaints at TVA management's request—to provide factual and independent information regarding potential employee misconduct related to hindering the expression of nuclear safety concerns.

Our investigations included two substantiated falsified documents and one violation of TVA's policy on Expressing Concerns and Differing Staff Views.

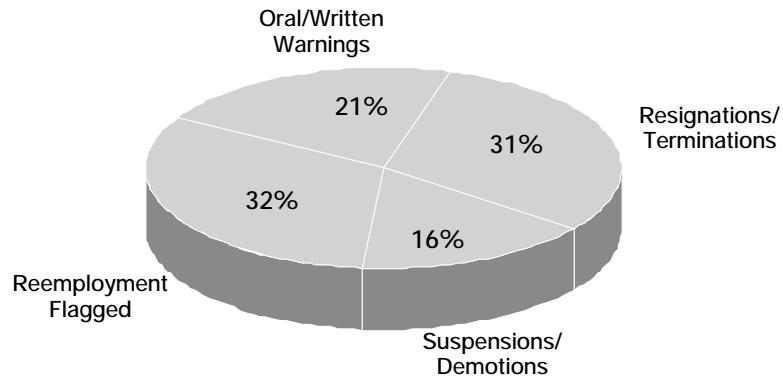
### BACKGROUND SUITABILITY INVESTIGATIONS

TVA saved \$13,700 by using the OIG to perform four background investigations rather than the U.S. Office of Personnel Management. These investigations ensure employees being hired for sensitive positions meet the applicable requirements.

Our investigations involve programs and activities affecting many TVA organizations. These organizations are shown below for the cases we closed this reporting period.

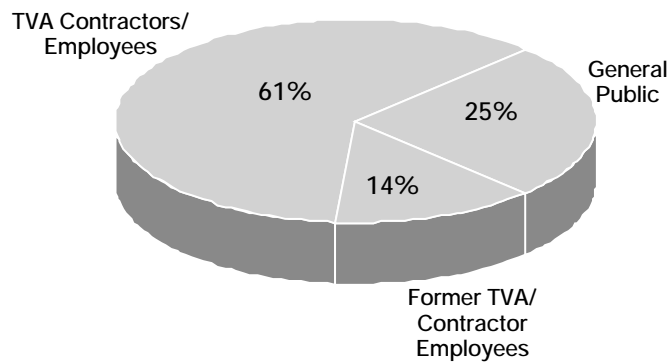


Administrative and Disciplinary Actions Since  
April 1, 1992\*  
Total = 334



\*Prosecutive referrals are shown at Appendix 3.

Calls Made to the OIG Hotline  
During this Reporting Period



In addition to conducting audits and investigations, our office continues to perform special projects for the Board of Directors and TVA executive management. During this reporting period, we conducted 15 such projects. Discussed below are the highlights of three of the more significant completed projects.

### **CONCERNS RESOLUTION PROGRAM REVIEW**

The OIG conducted a review of the Concerns Resolution Program in the Nuclear Power organizations. The primary focus was to gauge the extent employees and contractors felt free to raise nuclear safety concerns to management. In addition, we reviewed the Concerns Resolution Program files to assess compliance with procedures on the handling of concerns. We surveyed 563 randomly selected Nuclear Power employees and contractors using a standardized survey approach. Our survey instrument and methodology was reviewed by The University of Tennessee Statistics Consulting Center prior to implementation. The results of our review were presented to TVA management and representatives of the Nuclear Regulatory Commission Region II in Atlanta.

In summary, we found that Nuclear Power employees and contractors felt free to raise nuclear safety concerns to

their management, and the overwhelming majority know about and would use the Concerns Resolution Program. Additionally, we found that procedures were generally followed in addressing and resolving concerns. Follow-up reviews were suggested to gather more in-depth information about certain management issues at the Sequoyah Nuclear Plant and the Chattanooga corporate offices.

### **PEER REVIEW OF THE U.S. GENERAL PRINTING OFFICE - OFFICE OF THE INSPECTOR GENERAL**

As required by the Executive Council on Integrity and Efficiency (ECIE), each OIG should have a quality peer review of its operations at least once every three years. We conducted a peer review of the quality assurance and quality control processes in place for the audit operations at the U.S. General Printing Office (USGPO). Our review was performed in accordance with the guidance issued by the ECIE. In summary, we found USGPO complied with generally accepted auditing standards; however, we did make several suggestions to USGPO's Inspector General for improving audit operations.

## **SURVEY OF TVA'S INTEGRATED BUSINESS SYSTEM USERS**

Based on a risk assessment performed in 1996, the OIG determined that TVA's reliance on the Integrated Business System (IBS), TVA's general ledger system, was so significant that if IBS experienced any type of failure, TVA's financial reporting would be adversely affected. As follow-up to the risk assessment and in order to focus audit resources on high risk areas, we surveyed 128 IBS users to assess system reliability, support, and functionality and data integrity.

Overall, the users surveyed were generally satisfied with IBS. Most users surveyed had very positive remarks about the help desk and generally believed that IBS data was consistent and reliable. Likewise, users thought the reports from IBS met their needs and were easy to understand.

Despite their overall satisfaction with IBS, users expressed concerns about account code security and the budget module. Furthermore, several users commented that data in IBS did not balance to data in IBS feeder systems. As a result of their concerns about IBS, users relied on other systems or cost tracking methods to meet reporting needs and to ensure that

accurate data is maintained in IBS. We also noted that users generally did not change their IBS password.

The survey results were detailed in a booklet that was provided to TVA senior management and IBS staff members and were used as input in developing the 1997 audit plan.

## **OTHER PROJECTS**

Listed below are other representative special projects completed during the past six-month period.

- Review of TVA's Insurance Coverage
- Owner Controlled Insurance Program Review
- Noncompetitive Sole Source Contract Awards
- Review of Infrastructure Restoration Improvement Costs at Land Between The Lakes
- FECA Lump-Sum Payments



TVA'S OIG SEMIANNUAL REPORT CONTINUED ON THE  
FOLLOWING PAGE.

## ■ APPENDICES

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**OIG AUDIT REPORTS ISSUED DURING  
THE SIX-MONTH PERIOD ENDING MARCH 31, 1997**

The following table summarizes final audit reports issued by the OIG from October 1, 1996 through March 31, 1997.

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
10/25/96	96-076S	McDaniel Fire Systems, Inc. - Preaward Audit			\$1,350,000
10/31/96	96-044P-02	Benchmarking Study of Human Resource Functions and Costs			
11/6/96	96-022F	Cellular Phone Usage and Security			
11/6/96	96-073S	Union Boiler Company - Preaward Audit			270,000
12/9/96	96-069C	Ocoee Commercial Rafting Outfitters - Contracts TV-80166T, TV-80170T, and TV-80185T			
12/11/96	96-028P-04	Upper Cumberland Human Resource Agency - Contract TV-87111V			
12/19/96	96-004C	NPS Energy Services, Inc. - Contract 95P6G-133445	\$1,500	\$1,500	
1/3/97	96-056P	Review of Environmental Restricted Awards List Contracting Process			
1/7/97	96-028P-05	Visions Five Group - Contract TV-94560V			
1/10/97	96-045P	Review of Acid Mine Drainage Treatment at Fabius Coal Mines			
2/24/97	97-017S	TVA Nuclear's Revised Proposal to Battelle Pacific Northwest National Laboratories - Preaward Audit			51,202
2/26/97	96-047S	Bechtel Corporation - Contracts 94N3D-101953 and 95N4R-135627-002	54,075		

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DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
2/26/97	96-054S	Bechtel Corporation - Contract 92NLA-86916B	\$170,592		
3/7/97	96-041C	Westinghouse Electric Corporation - Contract 92NNP-79283A			
3/7/97	96-042C	Westinghouse Electric Corporation - Contract 94NNX-112361	14,121	\$14,121	
3/18/97	96-077P	Visions Five and Exceed, Inc. - Contracts TV-85730V and TV-90685V			
3/21/97	97-007P	Industrial Development Board of Blount County, Tennessee - Contract TV-00552W			
3/27/97	97-027S	Electrical Supply Alliance - Preaward Audit			
3/28/97	96-008F-02	TVA Annual Financial Statement Audit - FY 1995			
3/31/97	96-058F	Disaster Recovery Planning at Central Service Association			
3/31/97	97-012C	NPS Energy Services, Inc. - Contract 95P6G-133445 - Review of Nonmanual Labor and Other Billings	119,146		
3/31/97	97-016S	A. T. Kearney - Contract 96B8B-186988	242,284		
<b>Total</b>	<b>22</b>		<b>\$601,718</b>	<b>\$15,621</b>	<b>\$1,671,202</b>

**OIG'S REPORT ON MANAGEMENT DECISIONS FOR THE  
SIX-MONTH PERIOD ENDING MARCH 31, 1997**

The following Tables I and II summarize management decisions made by TVA management on OIG recommendations contained in final audit reports. The tables reflect amounts which were questioned and recommended to be put to better use and track the disposition of these amounts through management decision.

**TABLE I  
TOTAL QUESTIONED AND UNSUPPORTED COSTS**

<b>AUDIT REPORTS</b>	<b>NUMBER OF REPORTS</b>	<b>QUESTIONED COSTS</b>	<b>UNSUPPORTED COSTS</b>
A. For which no management decision has been made by the commencement of the period	4	\$284,063	\$0
B. Which were issued during the reporting period	6	601,718	15,621
Subtotal (A + B)	10	\$885,781	\$15,621
C. For which a management decision was made during the reporting period	7	541,968	15,621
1. Dollar value of disallowed costs	7	541,968	15,621
2. Dollar value of costs not disallowed	0	0	0
D. For which no management decision has been made by the end of the reporting period	3	343,813	0
E. For which no management decision was made within six months of issuance	0	0	0

TABLE II  
FUNDS TO BE PUT TO BETTER USE

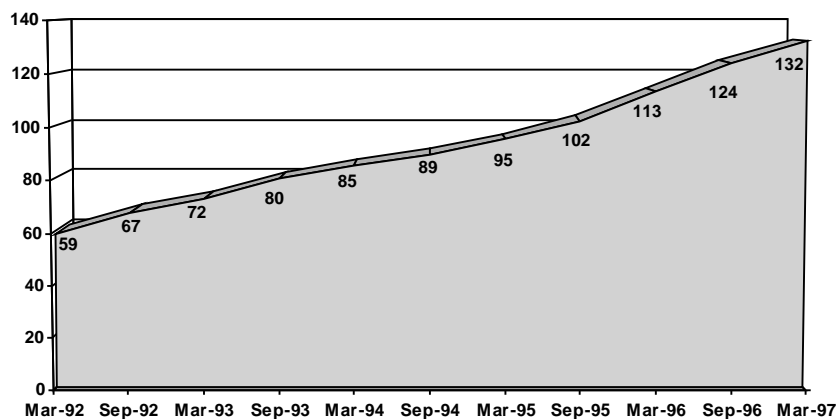
AUDIT REPORTS	NUMBER OF REPORTS	FUNDS TO BE PUT TO BETTER USE
A. For which no management decision has been made by the commencement of the period	6	\$3,642,209*
B. Which were issued during the reporting period	3	1,671,202
Subtotal (A + B)	9	\$5,313,411
C. For which a management decision was made during the reporting period	8	5,262,209
1. Dollar value of disallowed costs	8	5,262,209
2. Dollar value of costs not disallowed	0	0
D. For which no management decision has been made by the end of the reporting period	1	51,202
E. For which no management decision was made within six months of issuance	0	0

\* This number differs from the prior report's ending number due to classification errors on management decisions in the prior report.

## INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS

INVESTIGATIVE REFERRALS	SUBJECTS	RESULTS THIS PERIOD
Subjects referred to U.S. Attorneys	22	1 Indictment 8 Convictions 9 Declinations
Subjects referred to other agencies for investigative or administrative action	3	OWCP declared \$418,458 in overpayments and saved TVA more than \$2.3 million in estimated long-term workers' compensation costs.
TOTAL	25	

Convictions Since October 1, 1990  
(Cumulative)





Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1499

Craven Crowell  
Chairman, Board of Directors

May 6, 1997

TO THE UNITED STATES CONGRESS:

We are providing TVA's Report on Final Actions on Inspector General audit recommendations, in keeping with Section 5(b) of the Inspectors General Act of 1978, as amended.

The members of the TVA Board appreciate the work of the Inspector General's office in helping TVA improve its efficiency, productivity, and competitiveness as we strive to meet our goals and position TVA to compete in the global marketplace of the 21st century.

Sincerely,

A handwritten signature in black ink that reads 'Craven Crowell'.

Craven Crowell

Enclosure



**TVA MANAGEMENT'S REPORT ON FINAL ACTIONS FOR THE SIX-MONTH PERIOD ENDING MARCH 31, 1997**

The following Tables I and II summarize final action taken by management on OIG audit reports. The tables reflect amounts which were agreed to by management and track the disposition of these amounts through final action. Table III contains the explanations by audit report for final actions not taken within one year of the management decision dates.

**TABLE I  
DISALLOWED COSTS**

<b>AUDIT REPORTS</b>	<b>NUMBER OF REPORTS</b>	<b>AMOUNTS AGREED TO BY MANAGEMENT</b>
A. For which final action by management had not been taken by 9/30/96	11	\$6,745,417*
B. On which management decisions were made from 10/1/96 through 3/31/97	7	541,968
Subtotal (A + B)	18	\$7,287,385
C. For which final action was taken by management from 10/1/96 through 3/31/97		
1. Amounts that were recovered by management	9**	433,660
2. Amounts that were not recovered by management	5**	570,992
D. For which management has taken no final action by 3/31/97	9**	6,282,733

\* This number differs from the prior report's ending number due to a classification error on a management decision in the prior report.

\*\* The number of reports will differ from the arithmetic total when a final audit action includes both amounts recovered and amounts not recovered for a single audit report.

TABLE II  
RECOMMENDATIONS THAT FUNDS BE PUT  
TO BETTER USE

AUDIT REPORTS	NUMBER OF REPORTS	AMOUNTS AGREED TO BY MANAGEMENT
A. For which final action by management had not been taken by 9/30/96	7	\$5,349,913 *
B. On which management decisions were made from 10/1/96 through 3/31/97	8	5,262,209
Subtotal (A + B)	15	\$10,612,122
C. For which final action was taken by management from 10/1/96 through 3/31/97		
1. Dollar value of recommendations implemented by management	10 **	4,494,494
2. Dollar value of recommendations not implemented by management	6 **	1,253,615
D. For which management has taken no final action by 3/31/97	5 **	4,864,013

\* This number differs from the prior report's ending number due to classification errors on management decisions in the prior report.

\*\* The number of reports will differ from the arithmetic total when a final audit action includes both recommendations implemented and recommendations not implemented for a single audit report.

TABLE III  
EXPLANATIONS FOR FINAL ACTIONS NOT TAKEN

AUDIT REPORT NUMBER	DATE ISSUED	DISALLOWED COSTS	FUNDS PUT TO BETTER USE	EXPLANATION FINAL ACTION NOT TAKEN
Controls Over TVA Telephone Services 93-024F	3/31/95	N/A	N/A	TVA has issued a telephone system security document and is taking other actions to improve telephone security. TVA expects to complete those actions by 9/30/97.
Health Care Fraud Controls 94-020P	9/27/94	\$1,000,000	N/A	Based on the results of Deloitte & Touche's review, TVA questioned \$2 million in healthcare costs. Resolution is still pending.
Electric Power Research Institute - Preaward Audit for Tailored Collaboration Master Agreement 95-030S	5/30/95	\$578,000	\$1,078,313	Although TVA agreed with the recommendations in this report, attempts to negotiate a new contract with EPRI have not been completed. Work has continued under the existing contract as efforts to reach a new contract continue.

N/A - Not Applicable

NOTE: This table excludes two reports in judicial appeal according to the reporting guidelines of the Inspector General Act.

## OIG REPORTING REQUIREMENTS

Information required by the Inspector General Act of 1978, as amended, is included in this semiannual report as indicated below.

Section 4(a)(2) — Review of Legislation and Regulations	*
Section 5(a)(1) — Significant Problems, Abuses, and Deficiencies	Pages 5-20
Section 5(a)(2) — Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	Pages 5-20
Section 5(a)(3) — Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	Appendix 4
Section 5(a)(4) — Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions That Have Resulted	Appendix 3
Sections 5(a)(5) — Summary of Instances Where Information and 6(b)(2) Was Refused	**
Section 5(a)(6) — Listing of Audit Reports	Appendix 1
Section 5(a)(7) — Summary of Particularly Significant Audits	Pages 9-12
Section 5(a)(8) — Status of Management Decisions for Audit Reports Containing Questioned Costs	Appendix 2
Section 5(a)(9) — Status of Management Decisions for Audit Reports Containing Recommendations That Funds Be Put to Better Use	Appendix 2
Section 5(a)(10) — Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period	***
Section 5(a)(11) — Significant Revised Management Decisions	****
Section 5(a)(12) — Significant Management Decisions With Which the Inspector General Disagreed	*****

\* There were no significant legislation or regulations reviewed during this reporting period.

\*\* There were no instances where information or assistance was unreasonably refused or not provided.

\*\*\* There were no unresolved audit reports in this category during this reporting period.

\*\*\*\* There were no significant revised management decisions.

\*\*\*\*\* There were no significant management decisions with which the Inspector General disagreed.

# HIGHLIGHTS

	FOR SEMIANNUAL REPORTING PERIODS				
	MAR 31, 1997	SEPT 30, 1996	MAR 31, 1996	SEPT 30, 1995	MAR 31, 1995
<b>ANNUAL BUDGET</b> (In Millions of Dollars)	7.3	7.3	7.3	8.5	8.5
<b>CURRENT STAFFING</b>	86	94	95	95	98
<b>AUDITS &amp; SPECIAL PROJECTS</b>					
AUDITS IN PROGRESS					
Carried Forward	41	42	29	37	31
Started	29	50	41	43	48
Canceled	(14)	(6)	(4)	(10)	(6)
Completed	(22)	(45)	(24)	(43)	(36)
In Progress at End of Reporting Period	34	41	42	27	37
AUDIT RESULTS (Thousands)					
Questioned Costs	\$602	\$2,555	\$2,600	\$4,319	\$7,042
Disallowed by TVA	542	2,756	408	2,320	2,711
Recovered by TVA	434	1,167	460**	493	3,933
Funds to Be Put to Better Use	\$1,671	\$28,276	\$10,909	\$9,004	\$4,355
Agreed to by TVA	5,262	31,576	3,899	8,112	1,610
Realized by TVA	4,494	22,950	3,859	8,143	632
SPECIAL PROJECT RESULTS					
Completed	15	19	7		
Cost Savings Identified/ Realized (Thousands)	\$38,200	\$3,000	\$5,300		
<b>INVESTIGATIONS</b>					
INVESTIGATION CASELOAD					
Carried Forward	157*	153*	138*	158	174*
Opened	96	110	133	128	120
Closed	93	105	117	(147)	(136)
In Progress at End of Reporting Period	160	158	154	139	158
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	21	24	32	30	18
Actions Taken (# of Subjects)	15	17	35	21	23
<b>PROSECUTIVE ACTIVITIES</b> (# of Subjects)					
Referrals	22	17	13	17	7
Indictments	1	1	7	5	2
Convictions	8	12	12	7	6

\* Adjusted from previous semiannual reports.

\*\* Excludes excess recovery of \$211.

OFFICE OF THE INSPECTOR GENERAL OF THE TENNESSEE VALLEY AUTHORITY

400 WEST SUMMIT HILL DRIVE

KNOXVILLE, TENNESSEE 37902-1499